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SUBJECT: SERBIAN AUTHORITIES ARREST RULING PARTY MAYOR FOR
CORRUPTION

REF: BELGRADE 617

Summary

1. (SBU) Popular ruling party mayor Goran Knezevic was arrested October 1 and charged with participating in a criminal conspiracy. The arrest comes less than a month after statements by top officials of the ruling Democratic Party (DS) announcing a crackdown on corruption. The media and observers were rife with speculation about possible political motivations since Knezevic was reportedly a rival to DS Vice President Bojan Pajtic. Despite charges of political motivation, the new government may be making good on campaign promises to fight corruption. End Summary.

Mayor Charged with Defrauding Municipality

2. (U) Goran Knezevic, mayor of Zrenjanin in Vojvodina and a member of the main board of the ruling Democratic Party (DS), was arrested along with ten others on October 1 on charges of criminal conspiracy, abuse of office, forging public documents, and bribery. Among the ten are other Vojvodina public officials and businessmen, including Branko Savkovic, who is known as "Legija's banker" for his close association with the career criminal Milorad "Legija" Ulemek (reftel). In a press release, the Office of the Special Prosecutor for Organized Crime alleged that Knezevic participated in a scheme to sell choice plots of public land in Zrenjanin at cut-rate prices to select businessmen who would then sell them to corporations for an enormous profit. The "Construction Mafia" is also suspected of hiring a public security company, Gvozden, for public events and to protect municipal buildings without going through a public tender. The group allegedly made a 3.5 million Euro profit through these schemes. Knezevic specifically is accused of falsifying tender documents and paying and taking bribes. News outlets reported on October 3 that Knezevic and most of the other suspects had denied all allegations during questioning. One of the suspects, chief of Zrenjanin urban planning Nikola Halas, admitted to taking a bribe and said he told Knezevic about it, according to press reports.

3. (U) According to the Special Prosecutor's announcement, police in Zrenjanin, Vojvodina's capital Novi Sad, and Belgrade were involved in the investigation. Interior Minister Ivica Dacic said the investigation was already well underway when he took over as minister in July. An investigative judge will determine whether to initiate a court investigation and order investigative detention. Local daily Blic reported on October 3 that the investigation of the "Construction Mafia" was ongoing and involved criminal groups in Belgrade.

Government Announces Anti-Corruption Campaign

4. (U) Speeches by top government leaders foreshadowed the arrests. President Tadic (DS) announced at the party's main board meeting in

September that his government would decisively address corruption and crime and he would begin by uncovering corruption within the party. Soon after the board meeting, Oliver Dulic, Environmental Protection and Urban Planning Minister and one of Tadic's close advisors, gave an interview in the weekly magazine Vreme announcing the government's fight against corruption. In the interview, he said the government needed to recognize the great harm corruption inflicted on citizens.

15. (U) In an October 2 press release, DS said the fight against corruption was one of the government's highest priorities and that the state would carry out its duties without regard to a suspect's status or party membership. Interior Minister Dacic said that further actions to combat organized crime would occur, regardless of political affiliation, whenever the police discovered evidence. On October 2, Tadic told press that he was personally affected by the arrest of so prominent a DS member but that no one would be protected from the government's efforts to rout corruption. Tadic said Serbia had to address corruption and other issues before it could join the EU. Belgrade Mayor Dragan Djilas (DS) told the press he was certain similar abuse of office occurred in Belgrade and would not be surprised if a similar operation resulted in the arrest of officials in the capital. Dulic said the arrests should serve as a signal to other officials that the time had come to launch a serious crackdown on abuse of office.

Speculations on Government Motive

16. (U) Belgrade was awash with speculation on October 2 about the motivations for the arrest. Knezevic, a highly popular mayor, has a reputation as a high flyer, and there is speculation that his success may have sparked jealousy among his political rivals. Goran

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Jesic, DS Mayor of another Vojvodina municipality, Indjia, claimed that the fight was political and if the government had been serious about fighting the "Construction Mafia," it would have started the investigation in Belgrade and Novi Sad, where the root of the problem lay. Conspiracy theory-loving tabloid Kurir posited two theories on the reason for the arrest: a) Pajtic had ordered Knezevic's arrest because Knezevic had been a serious alternative to Pajtic for the position of president of the Vojvodina Executive Council, or b) Knezevic was only the first of many Vojvodina officials -- including Pajtic -- who would be targeted by DS in Belgrade for their efforts to decentralize power in Serbia.

Popular Mayor Led Municipality's Growth

17. (U) Knezevic is popular in Zrenjanin. He served a successful term as mayor from 2004-2008, and he won reelection in May by a wide margin. From 2000-2003, he was President of Zrenjanin's Executive Council. He also served as a member of the Serbian Parliament from 2003 to 2007. Until last year, he was the head of DS's Vojvodina branch. He resigned from this position in mid-2007 amid rumors of a political fight with Bojan Pajtic, a DS vice president and president of Vojvodina's Executive Council. Dusan Elezovic, a close friend of Pajtic, replaced Knezevic as the head of DS in Vojvodina.

18. (U) Zrenjanin is the largest municipality by area in the province of Vojvodina. A participant in USAID's Municipal Economic Growth Activity (MEGA) program, Zrenjanin has been successful in attracting investment. It received the Serbian Chamber of Commerce's Municipalities of the Future award for economic development in 2007. In a 2007 report of the World Bank on "Doing Business" in South East European cities in 2008, the World Bank ranked Zrenjanin the second highest among 22 cities in terms of ease of doing business. Knezevic is given much of the credit for Zrenjanin's successful development. In the summer of 2008 he received the Executive with Vision award from the Serbian Economic Journalists' Club and Agrobank.

Comment

19. (SBU) Corruption, which opinion polls consistently show is widely believed to be rampant in Serbia, was a top campaign theme in the presidential and parliamentary elections earlier this year. Anti-corruption efforts also fit in with Tadic's EU integration agenda. Knezevic's political spat with other top DS officials and his fellow mayor's surprising outspokenness about the political element invite the conclusion that the government is starting with convenient targets, but the arrest is not likely purely political. Some of Knezevic's co-defendants are unsavory, suggesting that Knezevic cannot be an innocent victim. Tadic may be making good on his campaign promises and starting by cleaning house. It is still too early to tell, however, if this arrest heralds a comprehensive campaign. End Comment.

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